

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Kalamazoo Community Mental Health	County Kalamazoo
Fiscal Year End September 30, 2006	Opinion Date January 31, 2007	Date Audit Report Submitted to State March 26, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

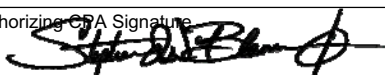
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe) Single Audit	<input checked="" type="checkbox"/>			
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 517-787-6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM		License Number 24801

**KALAMAZOO COMMUNITY MENTAL
HEALTH AND SUBSTANCE ABUSE SERVICES**

**FINANCIAL STATEMENTS
AND SINGLE AUDIT**

FOR THE YEAR ENDED SEPTEMBER 30, 2006

KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**



INDEPENDENT AUDITORS' REPORT

January 31, 2007

To the Board of Kalamazoo Community Mental
Health and Substance Abuse Services
Kalamazoo, Michigan

We have audited the accompanying basic financial statements of ***Kalamazoo Community Mental Health and Substance Abuse Services*** (the "Authority"), a component unit of Kalamazoo County, Michigan, as of and for the year ended September 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Kalamazoo Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kalamazoo Community Mental Health and Substance Abuse Services, as of September 30, 2006, and the changes in financial position and cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2007, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-7 and the pension information on page 21 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and schedules listed in the table of contents are presented for purposes of additional analysis, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis FY 2005/2006

The following Management's Discussion and Analysis (MD&A) of the activities and financial performance of Kalamazoo Community Mental Health and Substance Abuse Services (the Authority) provide an introduction to the financial statements of the Authority for the fiscal year ended September 30, 2006. The Authority has been established by the County of Kalamazoo and State of Michigan to operate, control, and manage an integrated behavioral healthcare and substance abuse system in order to better serve it's residents. The County Board of Commissioners appoints members to the Authority's board and provides financial support to the Authority on an annual basis. The Authority is considered a component unit for reporting purposes in the audit for the County of Kalamazoo.

Beginning in October, 2002, the Michigan Department of Community Mental Health contracted with the Authority as the designated Medicaid service provider or Prepaid Inpatient Health Plan (PIHP) for the geographic region in southwest Michigan which consisted of Kalamazoo, Allegan, St. Joseph, and Cass counties. Consequently, Kalamazoo PIHP has sub-contract agreements with each of these affiliate counties for the provision of these Medicaid services. Each county continues to hold independently the General Fund contract issued by the state as a Community Mental Health Service Program or CMHSP.

This contracting arrangement is expected to remain intact throughout fiscal year 2007.

The information contained in this MD&A should be considered in conjunction with the information contained in the financial statements audited by Rehmann Robson for the year ended September 30, 2006. This MD&A contains information on the basic financial statements of the Authority together with any required explanation which would be essential to acquire a full understanding of the data contained therein.

FINANCIAL POSITION SUMMARY

Analysis of assets, liabilities and net assets over time serves as a useful indicator of the Authority's financial position. The Authority's working capital, current assets \$16,621,569 minus current liabilities \$9,121,075 is positive at \$7,500,494. Additionally, the computation for net assets (total assets of \$20,622,451 minus total liabilities of \$10,021,807) is also significantly positive at \$10,600,644 for the year ended September 30, 2006. This represents a positive increase of net assets for the year ended September 30, 2005 of \$309,845, or a 3.01% increase in net assets from the prior year ending 2005. See note 8 in the financial audit regarding the detail of net assets.

A condensed summary of the Authority's balance sheet is shown below:

<i>September 30,</i>	2006	2005
Assets:		
Current assets	\$ 16,621,569	\$ 16,478,300
Non-current assets	4,000,882	2,979,108
Total assets	\$ 20,622,451	\$ 19,457,408

Management's Discussion and Analysis FY 2005/2006

<i>September 30,</i>	2006	2005
Liabilities:		
Current liabilities	\$ 8,796,216	\$ 8,390,352
Current portion of long-term debt	324,859	113,182
Non-current liabilities	900,732	663,075
Total liabilities	10,021,807	9,166,609
Net assets:		
Invested in capital assets	3,279,807	2,150,374
Restricted	2,957,273	2,885,905
Unrestricted	4,363,564	5,254,520
Total net assets	10,600,644	10,290,799
Total liabilities and net assets	\$ 20,622,451	\$ 19,457,408

The largest portion of the Authority's net assets (78.0% at September 30, 2006) represents its investment in fixed assets, reserves for equipment and internal service fund. The net assets increased by \$1,165,043, primarily due to the acquisition of the Netsmart clinical software made in this fiscal year. See note 8 in the accompanying financial audit for a complete description of the Authority's net assets.

REVENUES

A summary of operating revenues for the fiscal year ended September 30, 2006, and the amount and percentage of change in relation to prior year amounts is as follows:

<i>For Fiscal Year Ended September 30,</i>	2006		<i>Increase (Decrease) from 2005</i>	<i>Percent Increase (Decrease)</i>
	Amount	Percent	\$	%
Operating Revenue: Mental Health				
Medicaid:				
Retained by PIHP	44,720,773	47.1%	7,098,154	18.9%
Sub-capitated to Affiliates	26,936,213	28.4%	(280,291)	-1.0%
General Fund & Other:				
State/federal grants	15,482,820	16.3%	1,197,646	8.4%
Service fee revenue	568,032	0.6%	(152,935)	-21.2%
Other	468,652	0.5%	152,734	48.3%
Operating Revenue: Substance Abuse	6,827,591	7.2%	653,125	10.6%
Total Operating Revenues	95,004,081	100.0%	8,668,433	10.04%

The largest change in operating revenue for Medicaid is the full year affect of the QAAP tax on Medicaid services. This service tax amounted to \$4,401,694 in fiscal year 2006. Additionally, there was a change in the way administrative functions were delegated and funded to affiliate boards.

Management's Discussion and Analysis FY 2005/2006

EXPENSES

A summary of operating expenses for the fiscal year ended September 30, 2006, and the amount and percentage of change in relation to prior year amounts is as follows:

<i>For Fiscal Year Ended September 30,</i>	2006		<i>Increase (Decrease) from 2005</i>	<i>Percent Increase (Decrease)</i>
	Amount	Percent		
Operating Expenses:	\$	%	\$	%
MI adult population services	22,781,264	23.5%	840,362	3.8%
DD adult population services	21,999,006	22.7%	781,460	3.7%
SED population services	6,487,496	6.7%	1,445,842	28.7%
Substance abuse services	6,684,748	6.9%	440,916	7.1%
Subcapitated expenses to affiliates	26,936,213	27.8%	(280,291)	-1.0%
QAAP expense	4,401,649	4.5%	3,694,793	522.7%
Management & general expenses	7,753,799	8.0%	2,079,621	36.7%
Total Operating Expenses	97,044,175	100.0%	9,002,703	10.2%

Most noticeably on the expense side is the full year affect of the QAAP Medicaid services tax. Additionally, the full year affect of the Youth Services Unit SAMHSA Grant can be seen in the change in SED population services numbers along with an increase in administrative expense due to an increase in positions and and a change in the way administrative functions were delegated and funded to affiliate boards.

<i>For Fiscal Year Ended September 30,</i>	2006	2005
Operating loss	\$ (2,040,094)	\$ (1,705,824)
Non-operating revenue (expense)		
County appropriation	1,550,400	1,550,400
Interest revenue	741,392	422,325
Interest expense	(39,362)	(45,089)
Gain (loss) sale of fixed assets	(43,111)	-
Total non-operating revenue	2,209,319	1,927,636
Capital contributions	140,620	-
Increase in net assets	309,845	221,812
Net assets, beginning of year	10,290,799	10,068,987
Net assets, end of year	\$ 10,600,644	\$ 10,290,799

Management's Discussion and Analysis FY 2005/2006

SUMMARY OF CASH FLOW ACTIVITIES

<i>For Fiscal Year Ended September 30,</i>	2006	2005
Net cash provided by (used in) operating activities	\$ 71,440	\$ (3,375,304)
Net cash provided by non-capital financing activities	(20,000)	1,550,400
Net cash (used in) provided by investing activities	4,520,361	2,155,173
Net cash used in capital and related financing activities	(1,328,435)	(478,101)
Increase (decrease) in cash	3,243,366	(147,832)
Cash, beginning of year	48,447	196,279
Cash, end of year	\$ 3,291,813	\$ 48,447

OPERATIONAL HIGHLIGHTS

* Remarkably low utilization at Kalamazoo Regional Psychiatric Hospital was experienced in FY 05/06. The average monthly census was approximately 14 with the average monthly census dropping dramatically from April through the end of the fiscal year where the census was averaging around 5 individuals.

* ACT and Case management service utilization caps were put in place for providers in an effort to reduce costs and facilitate efficiencies between these two related services. Ultimately costs have been reduced throughout FY 05/06 from prior years.

* Numerous peers were certified by the state for providing peer directed and peer recovery services in the PIHP catchment area. These peers represented some of the first ones in the state to be recognized.

* In FY 05/06 "Azure Heights" a 10 unit building was developed and occupied with KCMHSAS consumers. This building allowed for shared staffing and multi-unit overnight monitoring system that would allow this staffing arrangement and a reduction in costs. This opportunity allowed several of our consumers to move from a specialized residential settings.

* KCMHSAS adjusted the payment mechanism for some Community Living Skills staffing to per diems instead of 15 minute units in an effort to maximize Home Help Revenue.

* Increase in the number of consumers hiring their own staff for CLS services from 28 to 46.

* Developed Youth Psychiatric clinic at our children's Youth Services clinic at 432 Crosstown Parkway.

* This was the first full year implementation of the SAMHSA Grant for children's service initially budgeted at over \$1 million dollars. Other significant grants awarded in this fiscal year were \$140,000 for Self-Determination, \$70,000 for IDDT Grant.

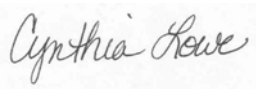
* Purchased new clinical software package from Netsmart.

**Management's Discussion and Analysis
FY 2005/2006**

FINANCIAL STATEMENTS (conclusion)

The Authority's financial statements are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America promulgated by the Government Accounting Standards Board (GASB). The Authority also follows where appropriate, statements and interpretations by the Financial Accounting Standards Board (FASB). Revenues are recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Assets are capitalized (except land and construction in progress) and are depreciated over their useful lives. Please see the notes to the financial statements for a summary of the Authority's significant accounting policies.

Respectfully submitted,



Cynthia Lowe
Chief Operating Officer



Richard M. Jones, MBA
Director of Finance

BASIC FINANCIAL STATEMENTS

**KALAMAZOO COMMUNITY MENTAL HEALTH &
SUBSTANCE ABUSE SERVICES**

**Statement of Net Assets
September 30, 2006**

Assets

Current assets:

Cash and cash equivalents	\$ 3,291,813
Investments	9,759,734
Accounts receivable	2,104,258
Accounts receivable-Medicaid	73,404
Due from State	417,098
Due from Affiliates	745,517
Prepays	217,524
Loan issuance costs	12,221
Total current assets	<u>16,621,569</u>

Non-current assets:

Long-term advances to providers	58,000
Capital assets not being depreciated	1,684,816
Capital assets being depreciated, net	<u>2,258,066</u>
Total non-current assets	<u>4,000,882</u>

Total assets	<u><u>\$ 20,622,451</u></u>
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Liabilities

Current liabilities:

Accounts payable	\$ 5,263,879
Accrued liabilities	529,638
Due to State	1,336,242
Due to Affiliates	229,184
Due to providers	654,553
Unearned revenue	782,720
Current portion of long-term debt	<u>324,859</u>
Total current liabilities	<u>9,121,075</u>

Non-current liabilities:

Long-term debt, net of current portion	<u>900,732</u>
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Total liabilities	<u>10,021,807</u>
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Net assets (Note 8)

Invested in capital assets, net of related debt	3,279,807
Restricted	2,957,273
Unrestricted	<u>4,363,564</u>

Total net assets	<u>10,600,644</u>
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Total liabilities and net assets	<u><u>\$ 20,622,451</u></u>
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The accompanying notes are an integral part of these financial statements.

**KALAMAZOO COMMUNITY MENTAL HEALTH &
SUBSTANCE ABUSE SERVICES**
Statement of Revenue, Expenses, and Changes in Fund Net Assets
For the Year Ended September 30, 2006

Operating revenue

Medicaid:	
Retained by PIHP	\$ 44,720,773
Sub-capitated to affiliates	26,936,213
General fund and other:	
Federal and state grants	15,482,820
Charges for services	568,032
Other revenue	468,652
Substance abuse revenue	
Medicaid:	
Retained by CA	1,455,575
Lakeshore	477,546
Block grant and other:	
Federal and state grants	3,602,158
Charges for services	53,200
PA2 funds	1,239,112
	<hr/>
Total operating revenue	95,004,081

Operating expenses

Mental health program services:	
MI Adult population	22,781,264
DD population	21,999,006
SED population	6,487,496
Substance abuse services	6,684,748
Payments to affiliates	26,936,213
QAAP expense	4,401,649
Management and general	7,753,799
	<hr/>
Total operating expenses	97,044,175
	<hr/>
Operating loss	(2,040,094)

Non-operating revenue (expenses)

County appropriation	1,550,400
Interest revenue	741,392
Interest expense	(39,362)
Loss on sale of capital assets	(43,111)
	<hr/>
Total non-operating revenue	2,209,319

Capital contributions

	<hr/>
Change in net assets	309,845
Net assets, beginning of year	<hr/>
	10,290,799
Net assets, end of year	<hr/> <hr/>
	\$ 10,600,644

The accompanying notes are an integral part of these financial statements.

**KALAMAZOO COMMUNITY MENTAL HEALTH &
SUBSTANCE ABUSE SERVICES**
Statement of Cash Flows
For the Year Ended September 30, 2006

Cash flows from operating activities	
Cash received from providing services	\$ 95,796,348
Cash payments to suppliers and affiliates	(87,734,843)
Cash payments to employees for services	<u>(7,990,065)</u>
Net cash provided by operating activities	<u>71,440</u>
Cash flows from noncapital financing activities	
Advances to providers	<u>(20,000)</u>
Cash flows from capital and related financing activities	
Purchase of capital assets	(1,316,511)
Capital contributions	140,620
Principal payments	(113,182)
Interest payments	<u>(39,362)</u>
Net cash used by capital and related financing activities	<u>(1,328,435)</u>
Cash flows from investing activities	
Sale of investments	3,778,969
Interest received	<u>741,392</u>
Net cash provided by investing activities	<u>4,520,361</u>
Increase in cash and cash equivalents	3,243,366
Cash and cash equivalents, beginning of year	<u>48,447</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,291,813</u></u>

**KALAMAZOO COMMUNITY MENTAL HEALTH &
SUBSTANCE ABUSE SERVICES**
Statement of Cash Flows (Concluded)
For the Year Ended September 30, 2006

**Reconciliation of operating loss to net
cash used in operating activities**

Operating loss	\$ (2,040,094)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	257,149
Amortization of loan issuance costs	2,256
County appropriation	1,550,400
Changes in assets and liabilities:	
Accounts receivable	(1,576,569)
Accounts receivable-Medicaid	312,972
Due from State	520,991
Prepays	75,955
Accounts payable and accrued liabilities	1,310,859
Due to State	(326,952)
Unearned revenue	<u>(15,527)</u>
Net cash provided by operating activities	<u><u>\$ 71,440</u></u>

Non-Cash Transactions:

There were no significant non-cash investing or financing activities during the year.

The accompanying notes are an integral part of these financial statements.

KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Kalamazoo Community Mental Health and Substance Abuse Services (the “Authority”), established under Section 205 of the Mental Health Code, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority’s accounting policies are described below.

Reporting Entity – The Authority is a Community Mental Health Authority serving the mental health needs of Kalamazoo County residents. These financial statements represent the financial condition and the results of operations of a component unit of Kalamazoo County, Michigan (the “County”) and are an integral part of that reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. The County also provides financial support annually to the Authority.

Financial Statements - The basic financial statements report information on all of the activities of Kalamazoo Community Mental Health and Substance Abuse Services.

The operations of the Authority are accounted for as an Enterprise Fund (a proprietary fund) which is designed to be self-supporting. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Business-type Activities

Enterprise Fund – The Enterprise Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenses for specified purposes.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation – The enterprise fund is the Authority’s primary operating fund, and only major fund. It accounts for all financial resources of the government, except those required to be accounted for in another fund.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the Authority’s operating fund are contract revenues from MDCH and first and third party billings. Operating expenses include the cost of providing mental health and substance abuse services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

NOTES TO FINANCIAL STATEMENTS

Capital Assets - Capital assets are defined as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded for reporting purposes at historical cost or estimated historical cost if constructed or purchased.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	25-40
Equipment and furniture	3-20
Vehicles	5

Cash and Cash Equivalents – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less for the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Receivables – Receivables consist primarily of amounts due from the State of Michigan for Medicaid billings and grant reimbursements under the terms of its full management contract and from other agencies, governments and organizations for services rendered. Amounts receivable under the full management contract are subject to a cost settlement process and, as such, provision has been made by the Board for adjustments as estimated by management.

Prepaids – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaids in the financial statements.

Compensated absences – It is the Authority's policy to permit eligible employees to accumulate up to a predetermined amount of vacation and sick leave in any one year. Upon termination, employees are paid for unused vacation at their current rates. Upon retirement, employees are paid for unused vacation and limited sick time at their current rates. It is the Authority's policy to recognize the cost of vacation and sick pay at the time the liability is incurred

Unearned Revenue -- Unearned revenue represents that portion of the current-year MDCH contract amount that may be carried-over to and expended in subsequent fiscal years. Such carryover is generally limited to five percent of the MDCH contract amount.

Medicaid Savings are considered local funds under the contract with MDCH, and may be spent over a period of several years in accordance with a Medicaid Reinvestment Strategy. State General Funds carried over must generally be spent in the following year.

KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

NOTES TO FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS

Deposits and Investments

Following is a reconciliation of deposit and investment balances as of September 30, 2006:

Statement of Net Assets	
Cash and cash equivalents	\$ 3,291,813
Investments	<u>9,759,734</u>
 Total	 <u><u>\$ 13,051,547</u></u>
 Deposits and Investments	
Bank deposits:	
Checking/savings accounts	\$ 54,469
Certificates of deposit (due within one year)	4,629,889
Investments in securities and money market funds	8,366,709
Cash on hand	<u>480</u>
 Total	 <u><u>\$ 13,051,547</u></u>

As of year end, the Authority had the following investments:

	Carrying Amount (Fair Value)	Maturity	Rating
Investments			
Money market funds - LaSalle Bank	\$ 4,297,864	N/A	Not rated
Commercial paper - GE	<u>4,068,845</u>	< 1 year	S&P - A-1+
 Total	 <u><u>\$ 8,366,709</u></u>		

Interest Rate Risk. Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of investments. The Authority's investment policy complies with State guidelines and seeks to minimize interest rate risk by investing primarily in short-term securities, liquid assets, money market funds, or similar investment pools and limiting average maturities. The policy does not place specific limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturities have been identified above for all of the Authority's investments.

KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

NOTES TO FINANCIAL STATEMENTS

Credit Risk – Investments. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the Authority's specific financial institutions, qualified mutual funds and qualified external investment pools as identified in below. The investment policy limits investments to be made with prudent judgment as to the safety of invested capital and probable outcome of income. Ratings have been identified above for all of the Authority's investments.

Custodial credit risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year-end, \$4,532,270 of the Authority's bank balance of \$4,686,730 was exposed to credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority requires securities held by a third party custodian to be evidenced by safekeeping receipts. The Authority's investments are not exposed to custodial credit risk since the securities are either held by the counterparty in the name of the Authority or uncategorized as to risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified below. Except for U.S. Treasury Securities and authorized investment pools, the Authority limits the amount invested in a single security type or single financial institution to be no more than 60% of the total portfolio. All investments held at year end are reported above.

KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

NOTES TO FINANCIAL STATEMENTS

3. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2006 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Business-type Activities				
Capital assets, not being depreciated:				
Land	\$ 368,153	\$ 77,758	\$ -	\$ 445,911
Construction in progress	143,440	1,231,166	(135,701)	1,238,905
Total capital assets not being depreciated	511,593	1,308,924	(135,701)	1,684,816
Capital assets, being depreciated:				
Buildings and improvements	2,757,367	91,093	(39,414)	2,809,046
Equipment and furnishings	2,046,837	52,195	(1,025,949)	1,073,083
Vehicles	159,953	-	(15,925)	144,028
Total capital assets being depreciated	4,964,157	143,288	(1,081,288)	4,026,157
Less accumulated depreciation for:				
Buildings and improvements	(724,942)	(126,985)	14,050	(837,877)
Equipment and furnishings	(1,703,200)	(104,180)	1,008,202	(799,178)
Vehicles	(120,977)	(25,984)	15,925	(131,036)
Total accumulated depreciation	(2,549,119)	(257,149)	1,038,177	(1,768,091)
Total capital assets being depreciated, net	2,415,038	(113,861)	(43,111)	2,258,066
Capital assets, net	\$ 2,926,631	\$ 1,195,063	\$ (178,812)	\$ 3,942,882

4. LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2006 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Mortgage payable	\$ 776,257	\$ -	\$ 113,182	\$ 663,075	\$ 58,833
Compensated absences	532,458	296,084	266,026	562,516	266,026
Total	\$ 1,308,715	\$ 296,084	\$ 379,208	\$ 1,225,591	\$ 324,859

The Authority's Mortgage is payable to a bank secured by real estate and full faith and credit of the Authority, due in semi-annual installments of \$76,272, including interest at 5.26%, due October, 2011.

KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

NOTES TO FINANCIAL STATEMENTS

Annual debt service requirements to maturity for the mortgage payable are as follows:

Year Ending September 30,	Principal	Interest	Total
2007	\$ 58,833	\$ 17,439	\$ 76,272
2008	122,349	30,195	152,544
2009	128,869	23,675	152,544
2010	135,737	16,807	152,544
2011	142,970	9,574	152,544
2012	74,317	1,955	76,272
	<u>\$ 663,075</u>	<u>\$ 99,645</u>	<u>\$ 762,720</u>

5. PENSION PLANS

The Authority maintains both a defined benefit plan and a defined contribution plan for its eligible employees. New employees have the option of participating in the defined contribution plan.

Defined Benefit Plan

Plan Description – The Authority’s defined benefit pension plan provides retirement and disability benefits, and death benefits to plan members and beneficiaries. The Authority participates in the Kalamazoo County Employees’ Retirement System, a Public Employee Retirement System, which is administered by the Kalamazoo County Employees’ Retirement System. The Authority establishes and amends the benefit provisions of the participants in the Plan. The Kalamazoo County Employees’ Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Kalamazoo County Retirement System, 201 W. Kalamazoo Avenue, Kalamazoo, Michigan 49007 or by calling (269) 384-8008.

Funding Policy – The Authority is required to contribute at an actuarially determined rate; the current rate is 4.39% of annual covered payroll. Employees are not required to contribute to the Plan. The contribution requirements of the Authority are established, and may be amended, by the Authority Trustees.

Annual Pension Cost – During the year ended September 30, 2006, the Authority made contributions to the plan totaling \$369,413, which are based on actuarial projections of funding requirements and are equal to the required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return, which includes an inflation component of 4.5% and (b) projected salary increases of 4.5% to 6.5% per year. The remaining amortization period for all liabilities at December 31, 2005, is 10 years.

KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

NOTES TO FINANCIAL STATEMENTS

Three-Year Trend Information

<u>Fiscal year ended September 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$1,013,247	100%	\$ -
2005	536,088	100%	-
2006	369,413	100%	-

Defined Contribution Plan

When the Authority became a separate legal entity, its employees elected not to participate in the Social Security System. To provide its employees a similar retirement benefit, the Authority sponsored a 401 (h) plan. Under the terms of this Plan, both the Authority and its employees are required to contribute the same amounts that would be due if the Authority had elected to participate in the Social Security System. For the year ended September 30, 2006, the Authority and its employees each contributed \$481,637. The Authority is not a fiduciary with respect to the Plan, and accordingly, assets and liabilities of the Plan have been excluded from these financial statements.

Other Postemployment Benefits

In addition to the pension benefits described above, the Authority provides postemployment health benefits in accordance with the requirements of an Authority resolution. Active participants of the defined benefit pension plan that retire at age 60 with eight or more years of service are eligible for this benefit. Currently, there are 27 retirees eligible for this benefit.

The Authority purchases commercial health insurance to provide this benefit, which is provided for the life of the retiree. The insurance policy provides coverage of medical expenses and costs for all pre-Medicare age retirees similar to the benefit available to active employees.

A reduced coverage policy, or Medicare supplement, is provided for each retiree eligible for Medicare. Dependent coverage, if requested, is financed by contributions by the retiree. Expenses for postemployment benefits are recognized on the pay-as-you-go method. During 2006 expenses of \$143,147 were recognized.

6. RISK MANAGEMENT

The risks of loss arising from general liability, property and crime, are minimized through participation in the Michigan Municipal Risk Management State Pool, a public entity risk pool currently operating as a common risk management program for government entities in the State of Michigan.

KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

NOTES TO FINANCIAL STATEMENTS

The Authority pays annual premiums to the state pool for insurance coverage up to a maximum of \$10,000,000 for aggregate general liability claims and \$5,205,000 for property and crime claims. In the event of unusually high claims, the state pool may assess member government units on a retroactive basis. The Authority purchases commercial insurance for risks of loss arising from employee health, medical, and workers' compensation claims. The Authority has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

7. CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, the Authority is subject to periodic audits of its agreements. Such audits could lead to questioned costs and/or requests for reimbursement to grantor or regulatory agencies.

As is the case with other entities, the Authority faces exposure from potential claims and legal proceedings involving environmental and other matters. No such claims or proceedings have been asserted as of September 30, 2006.

8. NET ASSETS

Invested in Capital Assets, Net of Related Debt

As of September 30, 2006, invested in capital assets, net of related debt were comprised of the following:

Invested in capital assets:	
Capital assets not being depreciated	\$ 1,684,816
Capital assets being depreciated, net	2,258,066
Mortgage payable	<u>(663,075)</u>
Total investment in capital assets, net of related debt	<u>\$ 3,279,807</u>

KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

NOTES TO FINANCIAL STATEMENTS

Restricted Net Assets

The Authority operates as a managed care provider to the State of Michigan. The Authority bears all costs up to 107.5% of the annual negotiated contract. All costs above 107.5% are borne by the State of Michigan. The Authority has restricted a portion of net assets and funded an amount to cover the risk exposure under its contract with the State of Michigan.

Following is a schedule of changes in restricted net assets:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Mental health	\$ 2,828,357	\$ 69,948	\$ -	\$ 2,898,305
Substance abuse	<u>57,548</u>	<u>1,420</u>	<u>-</u>	<u>58,968</u>
Total restricted net assets	<u>\$ 2,885,905</u>	<u>\$ 71,368</u>	<u>\$ -</u>	<u>\$ 2,957,273</u>

Additions were comprised of current year interest earnings.

Unrestricted Net Assets

As of September 30, 2006, unrestricted net assets were comprised of the following:

Designated for equipment replacement	\$ 976,227
Designated for employee benefits	1,575,143
Undesignated	<u>1,812,194</u>
Total unrestricted net assets	<u>\$ 4,363,564</u>

* * * * *

REQUIRED SUPPLEMENTARY INFORMATION

**Kalamazoo Community Mental Health and Substance Abuse Services
Employees' Retirement System
Required Supplementary Information**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (B)	Underfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll ((B-A)/C)
12/31/1997	\$ 9,115,383	\$ 7,700,948	\$ (1,414,435)	118.4%	\$ 6,309,426	-22.4%
12/31/1998	10,853,291	8,581,266	(2,272,025)	126.5%	6,703,157	-33.9%
12/31/1999	12,839,276	9,891,968	(2,947,308)	129.8%	6,948,912	-42.4%
12/31/2000	15,080,018	11,571,627	(3,508,391)	130.3%	7,246,718	-48.4%
12/31/2001	17,053,135	13,017,823	(4,035,312)	131.0%	7,458,238	-54.1%
12/31/2002	17,695,566	17,223,784	(471,782)	102.7%	8,686,961	-5.4%
12/31/2003	16,153,856	13,782,313	(2,371,543)	117.2%	7,395,382	-32.1%
12/31/2004	17,322,964	13,800,127	(3,522,837)	125.5%	6,950,369	-50.7%
12/31/2005	18,590,919	14,106,806	(4,484,113)	131.8%	7,407,981	-60.5%

SUPPLEMENTARY INFORMATION

SCHEDULE A

Kalamazoo CMHSAS Coordinating Agency

Substance Abuse Prevention & Treatment

Schedule of Budgeted, Reported, and Audited Amounts

For the Year Ended September 30, 2006

Fund Source	Budgeted	Reported	Audited Expenditures	Variance- Audited/ Reported	Local Match Funds
A State Agreement					
1 Community Grant	\$ 3,259,158	\$ 3,259,158	\$ 3,259,158	\$ -	\$ -
2 SDA	43,431	43,431	43,431	-	-
3 SIG	147,301	147,301	147,301	-	-
4 Methamphetamine	71,500	71,500	71,500	-	-
A Subtotal	3,521,390	3,521,390	3,521,390	-	-
B Medicaid					
1 Current Year PEPM (Federal & State)	1,458,613	1,518,223	1,518,223	-	-
2 Reinvestment Savings	11,367	11,367	11,367	-	-
B Subtotal	1,469,980	1,529,590	1,529,590	-	-
C Adult Benefit Waiver (ABW)					
1 Current Year PEPM (federal share only)	83,184	80,318	80,318	-	-
C Subtotal	83,184	80,318	80,318	-	-
D MI CHILD					
1 Current Year PEPM	6,091	450	450	-	-
D Subtotal	6,091	450	450	-	-
E Local					
1 Current Year PA2	981,466	977,299	977,299	-	977,299
2 PA2 Fund Balance	142,803	261,814	261,814	-	261,814
3 Other Local (R325.4152 excluding subsection (1)(b))	-	65,322	65,322	-	65,322
E Subtotal	1,124,269	1,304,435	1,304,435	-	1,304,435
F Fees & Collections- Subtotal (R325.4151 (1)(d))	119,000	136,710	136,710	-	136,710
G Other Contracts & Sources (Subtotal)	80,343	53,200	53,200	-	-
Grand Total of Subtotals A-G	\$ 6,404,257	\$ 6,626,093	\$ 6,626,093	\$ -	
Amount Billable to MDCH (Section A audited subtotal)			\$ 3,521,390		
Total MDCH Payments			3,521,390		
(Overpayment)/Underpayment			\$ -		
Local Match Funds Total					2,745,580
Less: Local Match Requirement [(Grand Total of Audited Expenditures-B-C-D-G) * 10%]					496,254
Local Match (Shortfall)/Excess					\$ 2,249,327

SCHEDULE B

Kalamazoo CMHSAS Coordinating Agency
Substance Abuse Prevention & Treatment
Schedule of Expenditures and Funding Sources by Program
Year Ended September 30, 2006

Program	Budgeted (FINAL)	Reported (FINAL RER)	Audited Expenditures			
			Gross Amount	Less Medicaid	Less Fees	Net Amount
Administration	\$ 594,005	\$ 590,945	\$ 590,945	\$ 228,602	\$ -	\$ 362,343
Prevention	1,069,414	1,245,800	1,245,800	-	21,520	1,224,280
Treatment	4,133,307	4,163,260	4,163,260	1,300,988	112,165	2,750,107
Women's Services	287,110	305,666	305,666	-	3,025	302,641
HIV/EIP Training	67,150	67,150	67,150	-	-	67,150
SIG	147,301	147,301	147,301	-	-	147,301
Methamphetamine	105,969	105,969	105,969	-	-	105,969
Other	-	-	-	-	-	-
Totals	\$ 6,404,256	\$ 6,626,091	\$ 6,626,091	\$1,529,590	\$136,710	\$ 4,959,791

Reconciliation of PA2 Funds:

Beginning Balance	\$ 745,329
Current Year PA2	977,299
Expenditures	(1,239,113)
Ending Balance	<u>\$ 483,515</u>

SCHEDULE B

Audited Funding Sources								Variance-
State Agreement	SDA	PA2	Other Local	Other Sources	ABW	MI CHILD	Total Funding	Audited/ Reported
\$ 362,343	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 362,343	\$ -
771,135	-	411,362	41,783	-	-	-	1,224,280	-
1,881,530	43,431	672,494	18,685	53,200	80,318	450	2,750,108	-
177,000	-	125,141	500	-	-	-	302,641	-
67,150	-	-	-	-	-	-	67,150	-
147,301	-	-	-	-	-	-	147,301	-
71,500	-	30,116	4,353	-	-	-	105,969	-
-	-	-	-	-	-	-	-	-
\$3,477,959	\$ 43,431	\$ 1,239,113	\$ 65,321	\$ 53,200	\$ 80,318	\$ 450	\$ 4,959,792	\$ -
43,431								
\$3,521,390								

Reconciliation of Medicaid Managed Care (PEPM) Funds:

PEPM Payments Received	\$ 1,455,575
Medicaid Savings Carried Over	11,367
Expenditures	(1,529,590)
Medicaid Savings Carryforward	-
Returned to PIHP	<u>\$ (62,648)</u>

SINGLE AUDIT



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

January 31, 2007

To the Board of Kalamazoo Community Mental
Health and Substance Abuse Services
Kalamazoo, Michigan

We have audited the basic financial statements of Kalamazoo Community Mental Health and Substance Abuse Services (the "Authority"), as of and for the year ended September 30, 2006, as listed in the table of contents and have issued our report thereon dated January 31, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board, management, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

January 31, 2007

To the Board of Kalamazoo Community Mental
Health and Substance Abuse Services
Kalamazoo, Michigan

Compliance

We have audited the compliance of Kalamazoo Community Mental Health and Substance Abuse Services (the "Authority") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal program for the year ended September 30, 2006. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board, management, others in the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

Kalamazoo Community Mental Health and Substance Abuse Services
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2006

Federal Agency/Pass-Through Grantor/Program Title	CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development		
Direct Programs		
Community Development Block Grant:		
Supportive Housing Program		
HUD Grant (HBI)-Original (3 yr.)	14.235	\$ 177,096
HUD Grant (HBI)-Renewal (1 yr.)	14.235	101,095
HUD Grant (HBII)-(3 yr.)	14.235	168,483
HUD Grant (HBIII)-(3 yr.)	14.235	2,056
HUD Grant (HB Full Count)-(3 yr.)	14.235	5,154
		<hr/>
Total U.S. Department of Housing and Urban Development		<hr/> 453,884
U.S. Department of Health and Human Services		
Direct Programs		
Child Mental Health Initiative	93.104	955,839
		<hr/>
Passed through Michigan Department of Community Health:		
Projects for Assistance in Transition from Homelessness (PATH)	93.150	39,000
		<hr/>
Passed through Michigan Department of Human Services:		
State Incentive Program Grant	93.243	147,301
Prevention of Meth Abuse in MI	93.243	71,500
		<hr/> 218,801
Promoting Safe and Stable Families	93.556	55,000
		<hr/>
Medical Assistance Program:		
OBRA - PASSAR	93.778	137,754
		<hr/>
Community Mental Health Services Block Grant:		
Wrap-around Respite Grant	93.958	11,273
PMTO Block Grant	93.958	25,000
MIFPI Block Grant	93.958	50,000
Juvenile Justice Diversion Project	93.958	50,000
Wellness Recovery Grant	93.958	47,516
MRC - Peer Support	93.958	16,702
Self D Initiative for MIA	93.958	75,000
Iddt Grant	93.958	67,716
Spanish - Peer Support Specialists	93.958	20,583
Supported Employment	93.958	13,868
DBT Peer Specialist	93.958	13,868
Clubhouse Training	93.958	45,016
		<hr/> 436,542
Substance Abuse Prevention and Treatment Block Grant:		
Prevention	93.959	2,246,701
		<hr/>
Total U.S. Department of Health and Human Services		<hr/> 4,089,637
Total expenditures of federal awards		<hr/> \$ 4,543,521

KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Kalamazoo Community Mental Health and Substance Abuse Services and is presented on the accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

2. SUBRECIPIENTS

Of the Federal expenditures presented in the schedule, Kalamazoo Community Mental Health and Substance Abuse Services provided federal awards to subrecipients, as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Projects for Assistance in Transition from Homelessness	93.150	\$ 39,000
Community Mental Health Services Block Grant	93.958	211,024
Substance Abuse Prevention and Treatment Block Grant	93.959	1,127,242

* * * * *

**KALAMAZOO COMMUNITY MENTAL
HEALTH AND SUBSTANCE ABUSE SERVICES**

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2006

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Reportable condition(s) identified
not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements
noted? yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? yes X no

Reportable condition(s) identified
not considered to be material weaknesses? yes X none reported

Type of auditors' report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)? yes X no

**KALAMAZOO COMMUNITY MENTAL
HEALTH AND SUBSTANCE ABUSE SERVICES**

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended September 30, 2006

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.235	Supportive Housing
93.104	Child Mental Health Initiative

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes no

SECTION II – FINANCIAL STATEMENT FINDINGS

None.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

SECTION IV – PRIOR YEAR FINDINGS

None.

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



January 31, 2007

To the Board of Kalamazoo Community Mental
Health and Substance Abuse Services
Kalamazoo, Michigan

We have audited the financial statements of Kalamazoo Community Mental Health and Substance Abuse Services for the year ended September 30, 2006, and have issued our report thereon dated January 31, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated December 8, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Kalamazoo Community Mental Health and Substance Abuse Services' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Kalamazoo Community Mental Health and Substance Abuse Services' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Kalamazoo Community Mental Health and Substance Abuse Services' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Kalamazoo Community Mental Health and Substance Abuse Services' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Kalamazoo Community Mental Health and Substance Abuse Services' compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Kalamazoo Community Mental Health and Substance Abuse Services are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Kalamazoo Community Mental Health and Substance Abuse Services during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Kalamazoo Community Mental Health and Substance Abuse Services' financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Kalamazoo Community Mental Health and Substance Abuse Services, either individually or in the aggregate, indicate matters that could have a significant effect on Kalamazoo Community Mental Health and Substance Abuse Services' financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Kalamazoo Community Mental Health and Substance Abuse Services' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

Kalamazoo Community Mental Health and Substance Abuse Services

Comments and Recommendations

For the Year Ended September 30, 2006

During our audit, we became aware of certain issues regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated January 31, 2007 on the financial statements of Kalamazoo Community Mental Health and Substance Abuse Services.

Supporting Schedules for Balance Sheet Accounts

During our audit, we noted that most of the Authority's balance sheet accounts were not supported by detailed schedules of what comprised the account balance. Instead, a general ledger detail was produced from which management indicated which individual postings to the account made up the ending balance. A detailed listing provides assurance that the balance is free of obvious errors, identifies unusual reconciling items that suggest the need for adjustment, and highlights mispostings or other clerical errors. Also, without a detailed listing, it is more difficult to determine the exact composition of each account.

We recommend that all balance sheet accounts be analyzed and supported monthly. The analyses should be retained and reviewed by a responsible official other than the preparer as part of the monthly closing cycle. This procedure will provide improved assurance that accounting errors will be detected and corrected in a timely manner, and will provide management and the KCMHSAS Board more meaningful and useful financial data with which to make their decisions.

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